

**The Michigan General Property Tax Act Aligned with  
Standards of Accepted Valuation Practice and Principals**

**Testimony to the House Tax Policy Committee December 9, 2015**

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Thank you Mr. Chair and committee members I am Mark Perry, Perry & Co. Thank you for the opportunity to be here today.

The goal of my testimony is to articulate that property valuation methodology is rooted in long standing appraisal principles and changing those standards can lead to significant impacts possibly causing unintended consequences. The issue of balancing accepted appraisal methodology with community budgets and right of due process is national in scope and alterations can impact gains made in Michigan's competitiveness. In addition, minor changes can raise constitutional issues of uniformity. I urge caution in making changes to the fundamental principles of property valuation in Michigan.

Private and public sector appraisers' alike will agree single occupancy (tenancy) of custom-built (special-use) properties present among the most challenging valuation assignments. One of the most challenging of these valuation problems arises when the assignment requires an opinion of the true cash value ("TCV") of the fee simple interest using all three approaches to value when the property has been custom-built with architectural superadequacies specific to the original occupant's use tied to the operation of a business enterprise.<sup>1</sup> The (3) traditional approaches to value are sales comparison method, cost approach, and income capitalization approach.

Michigan's property valuation principals have been developed over the decades by the State Tax Commission, state and national assessment/appraisal organizations, and Michigan courts based on the fundamental principal of uniformity. Generally addressing those potential constitutional concerns regarding uniformity should be cautiously approached because the

principle of uniformity will quickly lead to legal disputes and create near instant uncertainty in property valuations statewide.

Value-in-exchange and value-in-use are both differing forms of TCV. Value-in-use is the value specific property has to a specific person or specific business as opposed to the value to persons in the market in general.<sup>2</sup> Estimating use value, an appraiser values the contribution of the real estate to the business enterprise of which it is part or the use to which it is devoted, without regard to the highest and best use of the property or the monetary amount that might be realized from its sale.<sup>3</sup>

Value-in-exchange is commonly known as the amount an informed purchaser would pay for property under given market conditions.<sup>4</sup> Simply, the value-in-exchange is the amount a willing buyer will pay a willing seller in cash for the property with full knowledge of all market conditions. In Michigan and nationally for ad valorem property taxation purposes, the value-in-exchange of the property's fee interest is what appraisers strive to estimate.

Turning to real estate comparable sales; during the 1980's in Michigan there was a robust debate among appraisers in the Courts, and later in the Legislature of whether it was appropriate to accept "hanging wire" sales of industrial properties. "Hanging wire" sales are arms-length transactions of industrial properties that were vacant at time of sale and had been exposed to the open market. Also during that time, there was great debate over whether it was appropriate to use occupied and "vacant home" sales subject to creative financing. In the end, the State Tax Commission and courts allowed use of these types of open market tested sales in county equalization studies and when appraising the fee simple value-in-exchange of real estate.

Specific to the cost approach, the cost approach has been used in the past as a method of valuing custom-built special use properties. The fee simple value can be estimated if the cost new is properly adjusted for all forms depreciation. However, often times the appraisal industry gives less weight to the cost approach, because it is very difficult to quantify all

components of depreciation from all sources, such as functional and external economic obsolescence.

In closing, estimating the TCV of fee simple interest in real estate of a single-occupant custom-built property is a difficult assignment. The challenges of this situation are real for both private and public appraisers. However, I would suggest continued discussion about how to implement the existing principles of valuation methods is a better approach than fundamentally changing the principles of valuation. There can be many unintended consequences to competitiveness, if Michigan deviates from valuation methods used nationally.

I am hopeful my testimony has provided you with useful information to consider as you begin debating appraisal valuation methodology defining how TCV of custom-built special-use property is estimated.

I will be happy to take questions at this time.

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<sup>1</sup> Architectural Features Affecting Value, Robert A. Bick, AIA, CSI, ASPE, October 2008, Volume 6, Number 10, FAIR & Equitable, page 3, International Association of Assessing Officers.

<sup>2</sup> The Dictionary of Real Estate Appraisal, Fourth Edition, Appraisal Institute, page 306.

<sup>3</sup> The Appraisal of Real Estate, 14 Edition, Appraisal Institute, page 62.

<sup>4</sup> The Dictionary of Real Estate Appraisal, Fourth Edition, Appraisal Institute, page 104. Also see Glossary for Property Appraisal and Assessment, International Association of Assessing Officers, page 152.